



# STATE OF IOWA

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DEPARTMENT OF EDUCATION  
JUDY A. JEFFREY, DIRECTOR

To: Iowa Accountability and Transparency Board

From: Iowa Department of Education

Subject: ARRA High Risk Accountability Plan

Date: November 2, 2009

On September 9, 2009, the Iowa Department of Education (DE) was identified as a high priority risk assessment agency. In the communication on Sept 9, the DE was asked to create an accountability plan that addresses the following issues related to the management of ARRA funding:

Each agency/program ranked as high priority must develop a comprehensive monitoring plan and protocol to review grant and sub grant supported activities. The accountability plan should address the following at a minimum:

- A monitoring schedule;
- Monitoring policies and procedures;
- Data collection instruments (e.g., interview guides, review checklists);
- Monitoring reports and feedback to sub recipients; and
- Processes for verification of implementation of required corrective actions.

Our understanding of the reason for the above risk designation is primarily related to the State Fiscal Stabilization Funding (SFSF). Both the amount of funding and the newness of the funding create a situation under which there is risk for potential misuse of funds and consequently, the creation of this plan is desirable. This plan will focus primarily on the management of the education portion of that fund, since the Government Services portion of that fund is being managed by the Iowa Department of Management.

The DE received several other forms of ARRA funding, but all were additions to preexisting program funding and consequently, have well-established distribution, monitoring, and accountability provisions, which is why they will not be addressed in this plan unless the IATB instructs the DE to do so. These programs are frequently monitored through federal fiscal accountability visits and oversight.

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## ARRA SFSF – Education Fund (\$386,373,745)

### Background

The Education portion of the ARRA SFSF fund is approximately 80% of the total funding made available in this piece of ARRA funding. This funding must go to public school districts and public post-secondary institutions of higher education. The DE, in collaboration with the Governor's office and the Iowa Department of Management, submitted an initial application for the first two-thirds of the education funds. That application was approved in early June, 2009. The approved application includes certain assurances the State made related to priority reforms, documentation of funding levels related to minimum maintenance of effort, and plans for distribution of funds to specific entities.

During the 2009 legislative session, the Governor and the Legislature agreed to allocate Education SFSF funds through the legislative appropriations process. The legislature subsequently appropriated the majority of the SFSF Education funds in FY09 and FY10. Per ARRA, entities receiving funds from SFSF have broad discretion on use of funds. For K-12 school districts, the funds may be used in the same way as federal Impact Aid under ESEA is used, which is essentially similar to general fund dollars. For public post-secondary institutions, the same is true. The intent of these funds was two-fold: 1) bolster states by providing federal funding that serves to fill in gaps created by loss of state funds and 2) promote activities aligned to the four areas of reform promoted within the ARRA. There were few restrictions on these funds and states were prohibited from adding restrictions beyond what the statute provided. This created a situation where high visibility on use of funds was necessary, even while the parameters on how the funds were used were minimal.

### Monitoring Schedule

All SFSF Education funds were appropriated into preexisting funding mechanisms. The K-12 schools received SFSF Education funding in three pieces 1) direct state aid replacement, 2) instructional support levy state aid replacement, and 3) professional development funding to supplement existing professional development funding within the school aid formula. Public post-secondary institutions (community colleges and Regents institutions) received funds entirely as state aid replacement.

Monitoring then occurs in several ways. Every one of these funding streams has established distribution schedules. Community Colleges and Regents institutions receive state aid appropriations in 12 equal payments during the given fiscal year. K-12 school districts receive state aid in 10 equal payments beginning in September in a given fiscal year. Since the appropriation of \$2,000,000 in professional development for schools was to supplement existing PD efforts to implement the Iowa Core Curriculum, that distribution occurred once concurrent to the state aid distribution for schools in September.

These entities were expected and have established individual accounting lines for each separate piece of ARRA SFSF Education funding. K-12 schools have established accounting codes statewide and will account for all ARRA funding separately using the regular Certified Annual Report (CAR) process for budgeting and expenditures. A similar process is in effect for public post-secondary institutions. As a result, usual accounting and budgeting processes will account for these additional new funding streams. In all cases, subrecipients were cautioned about the types of accounts in which these funds were placed, since federal law limits the amount of interest earned on federal funds. These cautions occurred through webinars, FAQs, and specific written communication to the field.

Monitoring is then occurring on both the revenue distribution and accounting/expenditure ends of the process. The DE will use the quarterly Section 1512 reporting to the US Department of Education to indicate funds received and distributed to all subrecipients. Subrecipients will be expected to fully comply with Section 1512 reporting requirements and will account for expenditures using regular accounting processes. All of this is subject to audit at the subrecipient level. Section 1512 reporting occurs quarterly. Expenditure reporting occurs annually as a part of the CAR process. For Community Colleges and Regents, the DE and Board of Regents offices will implement similar processes for both distribution of funds and accounting for revenues.

#### Monitoring Policies and Procedures

The Department of Education and Board of Regents are using established accounting processes to monitor expenditures of ARRA SFSF Education funds. These processes are available for review by both respective entities and have been included in the entity's state audit process. For uses of funds, subrecipients must report cumulative expenditures and uses of the funds in the quarterly Section 1512 reports submitted to the Iowa Recovery.gov web site. Each report will be evaluated against the permissive uses of funds set out in the original ARRA statute. Guidance on uses of ARRA funds has been provided to all subrecipients and is available at

[http://www.iowa.gov/educate/index.php?option=com\\_content&view=article&id=1731&Itemid=2552#how](http://www.iowa.gov/educate/index.php?option=com_content&view=article&id=1731&Itemid=2552#how)

#### Data Collection Instruments

Information on uses of funds will be supplied by subrecipients using the reporting.iowa.gov web site. Accounting for expenditures will use the tools provided by either the DE or Board of Regents as a part of regular accounting procedures and processes.

#### Monitoring Reports and feedback to subrecipients

The DE is the primary reviewer of Section 1512 reports from all subrecipients of SFSF Education funds. These reports will be monitored and approved/rejected

using consistent processes of review and review criteria. Much of the review is presence or absence of information, since the parameters for uses of funds are broad. Certain types of data must be included such as jobs created/maintained, funds expended, uses of funds, and subrecipient identifier data.

If a given report has certain absence of data or deficiencies, the reporting,iowa.gov system has the ability to force a response prior to the acceptance of the report by the primary grantee. In these cases, individuals reviewing these reports for the DE have the ability to request additional data or fixes to the report to ensure that the report is submitted properly and completely. This was done to the degree practicable during the first cycle of Section 1512 reporting. The DE held several webinars and ICN sessions, as well as face-to-face training sessions, to assist subrecipients in understanding reporting requirements.

Accounting for expenditures will also occur in the regular CAR process. When looking at expenditures, the normal review process completed by department personnel will ensure that amounts balance, and that all funds are properly accounted for through the appropriate codes.

#### Processes for verification of implementation of required corrective actions

For Section 1512 reporting, the process of review will include any required corrective actions that must be taken by the subrecipient to properly submit the required report. This reporting will improve each cycle. The emphasis in the first round of Section 1512 reporting was simply trying to get the system functional and ensure all baseline information was provided. As these Section 1512 reports are cumulative over the life of ARRA, it is expected that this reporting will improve each cycle. If a correction is required, the DE will work with the subrecipient in question until the issue is properly resolved.

Local audits will review expenditures as a part of the annual audit. The Department provides annual updating and training for local auditors to help them stay current with new programs like these. Additional review of data submitted through regular accounting reporting process will occur and irregularities will be handled using normal corrective action processes.

#### Monitoring subrecipients on the Uses of ARRA Funds

Monitoring subrecipients of ARRA Education Stabilization funds will occur using three processes. These must be viewed collectively as a system to monitor. No one piece of this monitoring will fully address the potential misuse of funds, but using the pieces together will allow for cross-comparisons that will create red flags when appropriate.

### 1. ARRA 1512 reporting

Subrecipients will be required, as a part of the federal quarterly ARRA Section 1512 reporting, to describe how funds were expended. This reporting is cumulative and consequently, those fund use descriptions will be reviewed each quarter. If it is determined that there are questions about uses of funds or that the spending is not appropriate, that feedback will be provided to the subrecipient along with a request for a plan of correction. A potential action on any issues that are not adequately addressed would be a delay in future ARRA funds or potential payback of disbursed ARRA funds.

### 2. Annual Financial Reports

An existing process that is in place for all subrecipients requires them to submit an annual Financial Report that describes expenditures against revenues received. The Department has the discretion to focus on a specific type of funding within this comprehensive report as needed if there is a perceived need to more closely monitor uses of funds in a given category of spending. The Department will elevate all ARRA funding to this level of review and so will consequently monitor these reports for uses of ARRA funds. These reports are submitted each fall for the prior year spending. If irregularities are noted, the Department will work with districts to correct any improper use of funds.

### 3. Local school district audits

Every subrecipient of ARRA Education Stabilization funds is required to have an independent local audit each year. Audit findings are provided to these subrecipients each spring by the independent auditor. These audit reports are also provided to the Department. The Department annually reviews all of these local audits for irregularities or noncompliance.

Each year, the Department also provides training to these independent auditors to help update them on points of emphasis or changes to existing law. In the training for auditors for FY10, ARRA funding was included as a new funding stream. Local auditors were provided the ARRA guidance, as well as descriptions of uses of funds and fund disbursement schedules.

The Department will review all local independent audits for any findings related to all ARRA funding and ensure that the subrecipients make corrections appropriate to the findings.